



News Release

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IRS ANNOUNCES NEW DISCLOSURE INITIATIVE ON TAX SHELTERS

WASHINGTON – The Internal Revenue Service announced today a disclosure initiative that is aimed at encouraging taxpayers to disclose tax shelters and other questionable items reported on their tax returns.

The disclosure initiative is another in a series of steps the IRS and Treasury have been taking to identify and shut down tax shelter activity. The IRS is taking this step because information obtained through disclosures helps the IRS more readily identify tax shelter promoters who have not registered and find other taxpayers who have not disclosed their participation in a tax shelter.

The IRS hopes to encourage taxpayers to disclose tax shelters and other questionable items that may have resulted in an underpayment of tax by waiving certain accuracy-related penalties that might apply to the transactions. A taxpayer is not required to agree that the disclosed tax shelter or item resulted in an underpayment of taxes in order to avoid penalties.

“The IRS believes some taxpayers entered into questionable transactions based on the representations of promoters who marketed these tax shelters,” said Larry Langdon, Commissioner, Large and Mid-Size Business Division.

“These taxpayers are aware that those transactions may be challenged upon an IRS audit, but they may be reluctant to disclose the transactions because of the potential for the application of penalties,” Langdon said. “They now have additional incentive to bring any questionable transactions to the IRS’s attention.”

Taxpayers who make disclosures must, among other things, describe the material facts of the transaction, provide the names and addresses of the promoters who solicited the taxpayers’ participation, provide upon request copies of materials and documents related to the transaction or item, and sign a penalties of perjury statement regarding the accuracy of the information provided. The IRS will waive the accuracy-related penalty for underpayment of taxes attributable to one or more of the following: (1) negligence; (2) substantial understatement of income tax; (3) certain substantial valuation misstatements; or (4) substantial overstatement of pension liabilities.

The disclosure initiative will not apply to taxpayers involved in fraud, criminal conduct, the concealment of a foreign financial account or foreign trust, or the treatment of personal expenses as deductible business expenses.

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Disclosure is critical to the IRS's ability to use its resources efficiently and judiciously to administer the tax laws. As part of the disclosure initiative, the IRS will waive the accuracy-related penalty for any underpayment of tax if the taxpayer discloses the item before it is raised during an examination or before April 23, 2002, whichever is earlier.

In addition to the disclosure initiative, the IRS is providing additional internal guidelines to employees for the consideration of accuracy-related penalties for potentially abusive tax shelters. "Together with the disclosure initiative, these penalty guidelines create a compliance incentive by making clear the situations where we will consider the assertion of penalties already available to us," said Langdon.

The IRS encourages taxpayers who have reported questionable items on their tax returns to come forward. Disclosure creates no inference that the taxpayer's tax treatment of the item was improper or that the accuracy-related penalty would apply.

To make a disclosure, taxpayers should submit the disclosure information to their assigned IRS team manager or, if not under Examination, submit the information to:

IRS Office of Tax Shelter Analysis
LM:PFTG:OTSA
1111 Constitution Ave, NW
Washington, DC 20224.

The details of this program are contained in Announcement 2002-2. For information, contact the IRS Office of Tax Shelter Analysis at (202) 283-8425 or by email at jozef.chilinski@irs.gov or visit the IRS Web site: www.irs.gov

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